

Message Text

CONFIDENTIAL

PAGE 01 MOSCOW 03561 01 OF 05 311427 Z

43

ACTION XMB-01

INFO OCT-01 SS-14 ADP-00 EUR-10 EB-03 COME-00 TRSE-00

OPIC-01 CEA-01 NSC-10 NSCE-00 CIAE-00 INR-10 NSAE-00

RSC-01 L-02 PRS-01 CIEP-01 SAJ-01 RSR-01 INRE-00

AGR-03 STR-01 EA-13 OMB-01 SSO-00 /076 W

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P 311350 Z MAR 73

FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC PRIORITY 7640

C O N F I D E N T I A L SECTION 1 OF 5 MOSCOW 3561

LIMDIS

DEPT PASS EXPORT- IMPORT BANK

E. O. 11652: XGDS

TAGS: PFOR, UR

SUBJ: KEARNS MEETING WITH KOSYGIN, MARCH 30

1. BEGIN SUMMARY. KOSYGIN'S PRESENTATION CENTERED AROUND SEVERAL KEY COMMENTS. FIRST OF ALL, HE STRESSED SEVERAL TIMES DURING THE CONVERSATION THAT IT IS THE FIRM LINE OF THE SOVIET GOVERNMENT AND THE PARTY TO EXPAND RELATIONS WITH THE U. S. IN ALL FIELDS- POLITICAL, ECONOMIC AND FINANCIAL. EXPANSION IN ONE AREA WOULD BOLSTER THE RELATIONSHIP IN OTHERS. HE COMMENTED THAT CONFIDENCE BETWEEN THE TWO COUNTRIES WAS GROWING AND THIS PERMITTED FRANK AND HONEST DISCUSSIONS. KOSYGIN DWELT AT SOME LENGTH ON ELICITING INFORMATION AS TO HOW THE U. S. PLANS TO CORRECT THE BALANCE OF PAYMENTS PROBLEM AND THUS RESTORE CONFIDENCE IN THE DOLLAR. HE EXPRESSED CONCERN OVER RISING PRICES IN THE U. S., CITING INCREASES ON SUCH PRODUCTS AS GRAIN, ARTIFICIAL FIBERS, CERTAIN METALS AND MACHINERY. HE UNDERLINED THAT THE SOVIET UNION IS IN NO WAY INTERESTED IN MONETARY CHAOS. ITS ONLY INTEREST

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MOSCOW 03561 01 OF 05 311427 Z

IS FINDING A SOUND BASIS FOR A CONTINUED GROWTH IN THE ECONOMIC TIES BETWEEN THE TWO COUNTRIES. THINKING ALOUD, KOSYGIN ADVANCED A PERSONAL THEORY THAT A TRIANGULAR RELATIONSHIP MIGHT BE WORKED OUT UNDER WHICH THE USSR WOULD OBTAIN LARGE DOLLAR CREDITS IN EUROPE, PURCHASE EQUIPMENT IN THE U. S., AND USE THE EQUIPMENT TO SELL PRODUCTS BACK TO EUROPE. KEARNS EXPLAINED THAT INTEREST RATES WOULD PROBABLY RUN ONE TO TWO PERCENT HIGHER UNDER SUCH AN ARRANGEMENT. KOSYGIN EMPHASIZED THE INTEREST OF THE SOVIET UNION IN EXPANDING TWO- WAY TRADE AND OF ENGAGING IN LARGE- SCALE VENTURES. HE WISHED TO MAKE CLEAR THAT THE SOVIET UNION NEEDS CREDITS ON THE EASIEST POSSIBLE TERMS. THE U. S., HE SAID, WOULD NOT FIND MORE FAVORABLE CONDITIONS FOR ECONOMIC COOPERATION, REGARDLESS OF WHERE IT MIGHT TURN. KOSYGIN, ALTHOUGH BUSINESSLIKE AS USUAL, WAS IN A GOOD MOOD AND EVEN JOKED ON OCCASION. HE SPOKE WITHOUT NOTES, LOOKED FIT AND HAD GOOD COLOR. THE DARK BLEMISH ON HIS LEFT CHEEKBONE, HOWEVER, REMAINS VERY PROMINENT. END SUMMARY.

2. CHAIRMAN OF THE EX- IM BANK, HENRY KEARNS, ACCOMPANIED BY THE CHARGE MET WITH PREMIER KOSYGIN FOR AN HOUR AND TWENTY MINUTES AT THE KREMLIN. PRESENT ON THE SOVIET SIDE WERE M. N. SVESHNIKOV, CHAIRMAN OF THE USSR STATE BANK (GOSBANK), V. A. IVANOV, CHAIRMAN OF THE USSR BANK FOR FOREIGN TRADE (VNESHTORGBANK) AND VIKTOR SUKHODREV, THE INTERPRETER. A FULL MEMORANDUM COVERING THE CONVERSATION AND CLEARED BY MR. KEARNS FOLLOWS.

3. CHAIRMAN KOSYGIN INITIATED THE SUBSTANTIVE CONVERSATION BY ASKING WHETHER THE EXPORT- IMPORT BANK WAS AN INVESTMENT BANK.

4. MR. KEARNS NOTED THAT HE WAS LAST IN THE SOVIET UNION 15 YEARS AGO TO CONDUCT NEGOTIATIONS ON THE FIRST U. S. EXHIBIT. HE WAS HAPPY TO HAVE THE EXPORT- IMPORT BANK CONDUCTING BUSINESS WITH THE SOVIET UNION. IN RESPONSE TO THE PREMIER' S QUESTION, HE WISHED TO NOTE THAT THE EXPORT- IMPORT BANK' S SOLE PURPOSE AT THIS TIME IS TO FINANCE EXPORTS FROM THE UNITED STATES. THE BANK HAS AUTHORITY TO FINANCE IMPORTS BUT DOES NOT DO SO AS A GENERAL PRACTICE NOW. THE BANK DID, HOWEVER, FINANCE THE
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MOSCOW 03561 01 OF 05 311427 Z

IMPORT OF RAW MATERIALS DURING WORLD WAR II. IF THE

UNITED STATES IS ABLE TO CORRECT THE BALANCE OF PAYMENTS
PROBLEM RELATIVELY SOON, THE EXPORT- IMPORT BANK MAY
CONSIDER FINANCING IMPORTS TO A LIMITED DEGREE.

5. KOSYGIN SAID THAT RELATIONS BETWEEN THE UNITED STATES
AND THE SOVIET UNION ARE NOT WHAT THEY WERE SEVERAL YEARS
AGO. TODAY, RELATIONS ARE MARKED BY A FEELING OF
CONFIDENCE, WHICH HE BELIEVES AND HOPES THE UNITED STATES
SHARES. GIVEN THE NATURE OF OUR PRESENT RELATIONS,
ECONOMIC AND FINANCIAL ASPECTS OF THAT RELATIONSHIP COULD
RISE TO A HIGHER LEVEL THAN EVER BEFORE. THE FEELING OF
CONFIDENCE ALSO GIVES US THE RIGHT TO HAVE FRANK
DISCUSSIONS WITH EACH OTHER. IN THIS SPIRIT, HE WOULD
LIKE TO ASK WHAT DEFINITE PLANS THE UNITED STATES HAS TO
BRING THE BALANCE OF PAYMENTS PROBLEM TO A NORMAL STATE.
WHAT DOES PRESIDENT KEARNS SEE AS BEING A NORMAL STATE
OF AFFAIRS IN THIS CONNECTION? MOREOVER, THE CHAIRMAN
SAID HE HAD AN INTEREST IN KNOWING WHAT DEPARTMENT IN
THE U. S. SYSTEM DEALS WITH MATTERS RELATED TO THE BALANCE
OF PAYMENTS AND WHAT INFLUENCE DOES THAT DEPARTMENT HAVE
IN ATTEMPTING TO BRING ABOUT A NORMAL STATE OF AFFAIRS.

CONFIDENTIAL

ADP000
CONFIDENTIAL

PAGE 01 MOSCOW 03561 02 OF 05 311443 Z

43
ACTION XMB-01

INFO OCT-01 SS-14 ADP-00 EUR-10 EB-03 COME-00 TRSE-00

OPIC-01 CEA-01 NSC-10 NSCE-00 CIAE-00 INR-10 NSAE-00

RSC-01 L-02 PRS-01 CIEP-01 SAJ-01 INRE-00 RSR-01

AGR-03 STR-01 EA-13 OMB-01 SSO-00 /076 W
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P 311350 Z MAR 73
FM AMEMBASSY MOSCOW
TO SECSTATE WASHDC PRIORITY 7641

C O N F I D E N T I A L SECTION 2 OF 5 MOSCOW 3561
LIMDIS

6. MR. KEARNS SAID PRESIDENT NIXON, THE EXPORT- IMPORT
BANK AND, INDEED, THE AMERICAN PEOPLE BELIEVE THAT MUCH
CAN BE DONE TO EXPAND COMMERCIAL RELATIONS BETWEEN THE
U. S. AND THE USSR. WE HAVE THE TWO LARGEST ECONOMIES

IN THE WORLD. WITH RESPECT TO THE QUESTION ASKED BY THE
PREMIER, RIGHTING THE BALANCE OF PAYMENTS PROBLEM WILL
REQUIRE CONSIDERABLE EFFORT TO INCREASE U. S. EXPORTS.
AS THE PREMIER MAY KNOW, OUTFLOWS IN THE NON- TRADE AREA
ARE VERY LARGE AND WILL CONTINUE FOR SOME TIME. THE U. S.
DOES NOT HAVE A PLANNED ECONOMY. TO BE SURE, THE
GOVERNMENT CAN BRING ITS INFLUENCE TO BEAR ON CERTAIN
POLIICIES RELATING TO THE PROVISION OF GOODS AND SERVICES.
THE EXCHANGE OF GOOD AND SERVICES IN THE UNITED SATES,
HOWEVER, IS IN THE HANDS OF THOUSANDS OF PRIVATE FIRMS
AND ENTERPRISES. THEREFORE, IT IS IMPOSSIBLE FOR ANY ONE
DEPARTMENT OF THE GOVERNMENT TO HAVE SOLE RESPONSIBLITY
FOR CORRECTING THE UNFAVORABLE BALANCE OF PAYMENTS
PROBLEM. THE RESPONSIBILITY OF THE GOVERNMENT IS TO
PROVIDE MACHINERY TO FACILITATE THE ABILITY OF PRIVATE
BUSINESS TO OPERATE EFFECTIVELY IN THE WROLD MARKET.
THE EXPORT- IMPORT BANK IS A PART OF THAT MACHINERY.
UNDER POLICIES ESTABLISHED BY PRESIDENT NIXON, ALL
DEPARTMENTS OF GOVERNMENT ARE DEVOTING A MJOR PART OF
THIER EFFORTS TO EXPANING U. S. EXPORTS. FOR EXAMPLE,
THE DEPARTMENT OF STATE HAS EXPANDED ITS SERVICES TO
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MOSCOW 03561 02 OF 05 311443 Z

AMERICAN BUSINESSMEM ABROAD AND TO FOREIGN FIRMS
INTERESTED IN IMPORTING GOODS AND SERVICES FROM THE
UNITED SATES. THE TREASURY DEPARTMENT ASSISTS BY
GIVING FAVORABLE TAX TREATMENT TO FIRMS DOING BUSINESS
ABROAD. OUR MARITIME AUTHORITY IS TAKING STEPS TO
IMPROVE SHIPPING SERVICES. THE EXPORT- IMPORT BANK IS
ENGATED IN PROVIDING EXPANDED FIAANCING OF U. S. EXPORTS.

7. KOSYGIN SAID THAT AS FAR AS HE COULD RECALL U. S. EXPORTS
ACCOUNT FOR SOMETHING LIKE FIVE PERCENT OF THE GROSS
NATIONAL PRODUCT. HAS A CALCULATION BEEN MADE WITH RESPECT
TO THE EXTENT TO WHICH THAT FIGURE WOULD HAVE TO RISE IN
ORDER TO BRING ABOUT A FAVORABLE BALANCE OF TRADE FOR THE
UNITED STATES?

8. MR. KEARNS SAID EXPORTS IN 1972 ACCOUNTED FOR FOUR
PERCENT OF OUR GROSS NATIONAL PRODUCT. THIS AMOUNTS TO
48 BILLION DOLLARS. IF EXPORTS ARE INCREASED BY ONE
PERCENT, THAT WOULD AMOUNT TO MORE THAN AN ADDITION OF
TEN BILLION DOLLARS. THIS WOULD BE ADEQUATE TO CORRECT
THE BALANCE OF PAYMENTS AND, INDEED, RESULT IN A SURPLUS
OF AN EXTENSIVE NATURE.

9. KOSYGIN NOTED THAT THE UNITED STATES HAS A LARGE
NUMBER OF DOLLARS IN EUROPE. FIGURES VAYR FROM \$40 TO
\$80 BILLION. TO COPE WITH THIS PROBLEM VARIOUS

MEETINGS OF VERY INFLUENTIAL PEOPLE HAVE TAKEN PLACE. VARIOUS SOLUTIONS HAVE BEEN DEvised, I. E., DEVALUATION, REEVALUATION, AS WELL AS THE FLOATING OF CURRENCIES. THESE SEEM TO BE ADMINISTRATIVE MEASURES AND NOTHING MORE. MEETINGS COULD TAKE PLACE FOR A THOUSAND YEARS AND NOT RESOLVE THE PROBLEM, IN HIS OPINION. WHAT PLANS DOES THE UNITED STATES HAVE TO REMOVE DOLLARS FROM EUROPE AND THEREBY REESTABLISH CONFIDENCE IN THE DOLLAR? EVERYONE REALIZES THAT THIS IS A TOUGH PROBLEM. HE DID NOT EXPECT AN EXHAUSTIVE REPLY. HIS INTEREST LAY IN ASCERTAINING THE GENERAL POLICY OF THE UNITED STATES TO COPE WITH THE PROBLEM AT HAND.

10. MR. KEARNS SAID IF HE HAD AN ANSWER, HE WOULD BE SITTING IN THE WHITE HOUSE RIGHT NEXT TO PRESIDENT NIXON AT THE PRESENT TIME. NEVERTHELESS, PRACTICAL MEASURES
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MOSCOW 03561 02 OF 05 311443 Z

HAVE BEEN TAKEN TO RESOLVE THIS PROBLEM OVER THE LONG TERM. THESE MEASURES WILL NOT RESULT IN A SOLUTION IN THE NEXT DAYS, WEEKS, OR MONTHS. ON THE MONETARY SIDE, IT MUST BE RECOGNIZED THAT DIFFERENT COUNTRIES HAVE DIFFERENT INTERESTS. IT IS DIFFICULT FOR THESE COUNTRIES TO AGREE ON ANY ONE PROGRAM, THE LEADERS OF THE MAJOR TRADING COUNTRIES ARE CONCERNED THAT POLITICAL PROBLEMS WOULD BE CREATED FOR SOME OF THE COUNTRIES. HOWEVER, SPECIFIC MEASURES CAN BE CITED TO INDICATE WHAT WE ARE DOING TO SOLVE OUR OWN PROBLEMS. IT IS USEFUL TO POINT OUT THAT ONE PRINCIPAL REASON THAT THERE ARE SO MANY DOLLARS OUTSIDE THE UNITED STATES RESULTS FROM THE LARGE U. S. INVESTMENTS UNDERTAKEN IN MANY PARTS OF THE WORLD SINCE THE END OF WORLD WAR II. AMERICAN COMPANIES HAVE INVESTED IN MANUFACTURING, MINES, ETC. ROUGHLY ONE HUNDRED BILLION DOLLARS WERE TAKEN OUT OF THE UNITED STATES FOR INVESTMENTS ABROAD. THIS MOVEMENT WAS PARALLELED BY INTERNAL PROSPERITY IN THE UNITED STATES. THIS PUT MONEY IN THE HANDS OF AVERAGE WORKERS IN THE UNITED STATES WHO FREQUENTLY DECIDED TO USE SOME OF THEIR DISPOSABLE INCOME FOR THE PURCHASE OF FOREIGN GOODS. AT THE SAME TIME, AMERICAN INDUSTRY ALSO GREW ENORMOUSLY, DEMANDING MORE AND MORE RAW MATERIALS FROM ABROAD. THESE COMBINED DEVELOPMENTS RESULTED IN A LARGE INCREASE OF IMPORTS OVER THE PAST TWENTY YEARS. SIMULTANEOUSLY, HOWEVER, U. S. EXPORTS CONTINUED TO GROW AT A RATE OF APPROXIMATELY SEVEN TO TEN PERCENT ANNUALLY. WHILE THE GAP BETWEEN EXPORTS AND IMPORTS CONTINUED TO GROW FOR SOME TIME, IT IS NOW BEING CLOSED. IT IS BELIEVED THAT OUR EXPORTS WILL EXCEED OUR IMPORTS BY THE END OF THIS YEAR.

CONFIDENTIAL

ADP000
CONFIDENTIAL

PAGE 01 MOSCOW 03561 03 OF 05 311505 Z

43
ACTION XMB-01

INFO OCT-01 SS-14 ADP-00 EUR-10 EB-03 COME-00 TRSE-00

OPIC-01 NSC-10 NSCE-00 CIAE-00 INR-10 NSAE-00 RSC-01

L-02 PRS-01 CIEP-01 SAJ-01 INRE-00 RSR-01 AGR-03

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P 311350 Z MAR 73
FM AMEMBASSY MOSCOW
TO SECSTATE WASHDC PRIORITY 7642

C O N F I D E N T I A L SECTION 3 OF 5 MOSCOW 3561
LIMDIS

11. KOSYGIN ASKED HOW THE UNITED STATES WAS GOING TO GET BY WITHOUT INCREASED RAW MATERIAL IMPORTS IF THE GAP WAS INDEED GOING TO BE CLOSED.

12. MR. KEARNS REITERATED THAT U. S. EXPORTS ARE INCREASING AT A MORE RAPID RATE THAN IMPORTS AND THIS WILL PROVIDE MEANS FOR INCREASED RAW MATERIAL IMPORTS.

13. IT SEEMD TO MR. KOSYGIN THAT INCREASED EXPORTS HAD RESULTED IN LARGE MEASURE FROM THE EXPORT OF AGRICULTURAL PRODUCTS-- WHEAT, GRAIN, ETC. THIS INCREASE MIGHT ONLY BE OF A TEMPORARY NATURE.

14. MR. KEARNS REPLIED THAT THIS IS TRUE ONLY IN PART, SINCE THE EXPORT OF MACHINERY AND OTHER MANUFACTURING PRODUCTS HAVE ALSO BEEN EXPANDING AT A RAPID RATE. OUR PROBLEM RESULTS IN PART FROM THE BRETTON WOODS AGREEMENT OF 1945. AT THAT TIME, THE VALUE OF THE DOLLAR WAS FIXED TO OTHER CURRENCIES AND THIS SITUATION CONTINUED FOR 25 YEARS, EVEN THOUGH THE ECONOMIES OF COUNTRIES IN WESTERN EUROPE AND JAPAN CHANGED QUITE MARKEDLY. THE IMPROVED POSTION OF FOREIGN ECONOMIES HAD THE EFFECT OF MAKING U. S. EXPORTS MORE EXPENSIVE. PRESIDENT NIXON' S POLICIES HAVE BROUGHTCURRENCIES INTO A MORE REALISTIC ALIGNMENT AND IMPROVED THAT COMPETITIVE POSITION OF U. S.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MOSCOW 03561 03 OF 05 311505 Z

PRODUCTS. THESE PRODUCTS ARE NOW IN A BETTER POSITION THAN THEY HAVE BEEN IN THE LAST 20 YEARS, AND THIS ACCOUNTS FOR THE RAPID INCREASE IN ORDERS FOR EXPORTS OF MANUFACTURED GOODS AND COMMODITIES.

15. MR. KOSYGIN SAID HE HAD ANOTHER QUESTION AND THIS RELATED TO THE TWO RECENT DEVALUATIONS OF THE DOLLAR, TOTALING SOME 20 PERCENT. IT SEEMS OUTWARDLY THAT THE U. S. MARKET HAS LOWERED ITS PRICES IN RELATIONS TO THE DOLLAR TO MAKE GOODS MORE COMPETITIVE ABROAD. BUT WHAT APPEARS TO HAVE HAPPENED IN FACT IS THAT PRICES OF GRAIN, METAL, CONSUMER GOODS, ETC. HAVE GROWN INSTEAD OF DECLINING. EQUIPMENT, FOR EXAMPLE, HAS BECOME MORE EXPENSIVE.

16. MR. KEARNS SAID THIS WAS A RELATIVE MATTER. AS THE DOLLAR WAS RELATIVELY VALUED DOWNWARD, PRICES HAVE BECOME MORE ATTRACTIVE BECAUSE OF THE CHANGE IN EXCHANGE RATES BETWEEN COUNTRIES. INTERNAL U. S. PRICES ARE A RELATIVE MATTER. THESE PRICES HAVE ROUGHLY RISEN IN PARALLEL WITH THE RATE IN INFLATION. BUT THE RATE OF INFLATION IS LOWER IN THE U. S. THAN ALMOST EVERY OTHER COUNTRY IN THE WORLD. OUR PRODUCTS HAVE THEREFORE BECOME MORE COMPETITIVE THAN EVER BEFORE. IF CURRENCIES WERE UNRELATED TO EACH OTHER, NO DIFFERENCES WOULD RESULT IN THE COMPETITIVE FIELD. BUT 95 PERCENT OF OUR TRADE IS WITH COUNTRIES IN EUROPE AND WITH JAPAN, AND THE RECENT DEVALUATIONS HAVE AFFECTED OUR COMPETITIVE POSITION IN THESE COUNTRIES IN A FAVORABLE WAY. SINCE OUR PRICES ARE MORE COMPETITIVE OUR EXPORTS ARE NOW INCREASING TO THESE COUNTRIES.

17. KOSYGIN WISHED TO TAKE NOT A SERIES OF CHANGES IN U. S. PRICES. IN THE RECENT PAST, THE PRICE PER TON OF WHEAT HAD RISEN FROM \$64 TO \$94. ARTIFICIAL FIBERS HAS RISEN IN PRICE FROM \$800 TO \$1500 PER TON. IN A SIMILAR VEIN, THE PRICE OF CERTAIN METALS HAD RISEN FROM \$140 TO \$200 PER TON. THESE PRICES APPLY NOT ONLY TO THE USSR BUT TO FRANCE, THE FRG AND TO ALL OTHER COUNTRIES WHICH IMPORT SUCH U. S. GOODS. IN SEVERAL CASES, THE PRICES OF US GOODS ARE HIGHER THAN THOSE IN EUROPE. THESE COMMENTS ARE NOT MADE IN A CRITICAL MANNER. THE SOVIET UNION WANTS TO DO ALL POSSIBLE TO IMPROVE ECONOMIC PROSPECTS BETWEEN THE TWO COUNTRIES. THE PURPOSE OF

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MOSCOW 03561 03 OF 05 311505 Z

SPEAKING FRANKLY IS TO ATTEMPT TO FIND A WAY OUT WHICH ENSURES CONTINUED GROWTH IN THE ECONOMIC TIES BETWEEN THE UNITED STATES AND THE USSR. THE SOVIET UNION IS IN NO WAY INTERESTED IN MONETARY CHAOS. ON THE CONTRARY, IT IS INTERESTED IN FINDING A SOUND BASIS FOR THE DEVELOPMENT OF ECONOMIC RELATIONS.

18. MR. KEARNS COMMENTED THAT IF U. S. PRICES ARE NOT NOW COMPETITIVE, THE U. S. WILL, OF COURSE, NOT BE ABLE TO SELL ITS GOODS ABROAD. BUT A NUMBER OF FACTORS CAN BE CITED TO EXPLAIN THE IMPROVED COMPETITIVE POSITION OF U. S. GOODS. FIRST, THE U. S. ECONOMY IS SOUND. THE RATE OF GROWTH OF THE ECONOMY IS GOOD AND STEADY. THE RATE OF INFLATION IS UNDER CONTROL. UNDER THE LEADERSHIP OF PRESIDENT NIXON, THE UNITED STATES HAS TAKEN AN OUTWARD-LOOKING POSTURE WITH RESPECT TO THE EXPANSION OF TRADE, NOT ONLY WITH OTHER FREE-MARKET ECONOMIES BUT WITH THE USSR AND COUNTRIES ASSOCIATED WITH IT AS WELL. A NEW FACTOR IN THE SITUATION-- WHICH COULD BE A MAJOR ONE-- IS THE PROSPECT OF GROWING TRADE BETWEEN THE UNITED STATES AND THE USSR. IF THIS TRADE CAN EXPAND IT COULD BE A LEVELING INFLUENCE IN THE TOTAL TRADE PICTURE. IF ONE CONSIDERS THE PRICE, THE QUALITY, AND THE TECHNOLOGICAL CONTENT, U. S. PRODUCTS WILL BE FOUND TO BE COMPETITIVE.

CONFIDENTIAL

ADP000

CONFIDENTIAL

PAGE 01 MOSCOW 03561 04 OF 05 311528 Z

50

ACTION XMB-01

INFO OCT-01 SS-14 ADP-00 EUR-10 EB-03 COME-00 TRSE-00

OPIC-01 NSC-10 NSCE-00 CIAE-00 INR-10 NSAE-00 RSC-01

L-02 PRS-01 CIEP-01 SAJ-01 INRE-00 RSR-01 AGR-03

STR-01 EA-13 CEA-01 OMB-01 SSO-00 /076 W

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P 311350 Z MAR 73

FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC PRIORITY 7643

CONFIDENTIAL SECTION 4 OF 5 MOSCOW 3561

LIMDIS

19. KOSYGIN THEN NOTED THAT HE WISHED TO APPROACH SOME PROBLEMS OF MORE DIRECT CONCERN TO THE SOVIET UNION. AS IS KNOWN, IT IS THE FIRM LINE OF THE GOVERNMENT AND THE PARTY TO EXPAND RELATIONS WITH THE U. S. IN ALL FIELDS--POLITICAL, ECONOMIC AND FINANCIAL. EXPANSION IN ONE AREA BOLSTERS THE RELATIONSHIP IN THE OTHERS. TODAY, CONFIDENCE IS GROWING BETWEEN THE TWO COUNTRIES AND THEREFORE FRANK AND HONEST DISCUSSIONS ARE POSSIBLE. THE SIUTATION TODAY IS THAT TRADE IS PRETTY MUCH A ONE- WAY AFFAIR. THE SOVIET UNION IS BUYING SUBSTANTIAL QUANTITIES OF GOODS FROM THE UNITED STATES. THE UNITED STATES, HOWEVER, IS BUYING ONLY MINOR ITEMS FROM THE SOVIET UNION. THE SOVIET UNION IS FAMILIAR WITH THE AMERICAN MARKET AND HAS A CLEAR IDEA OF WHAT THE SOVIET UNION NEEDS. RECENT COMMITMENTS MADE BY THE EXPORT- IMPORT BANK DEMONSTRATE HOW QUICKLY THE SOVIET UNION DISTRIBUTES CREDITS TO UNDERTAKE THE PURCHASE OF EQUIPMENT NEEDED IN THE SOVIET UNION. THE USSR HAS ALSO PURCHASED GRAIN WITH A \$500 MILLION CREDIT. IN THIS CASE, THE SOVIET UNION IS TRYING TO PAY CASH FOR THE GRAIN, SINCE THE CREDITS ARE ONLY SHORT TERM IN NATURE.

20. THINKING ALOUD, KOSYGIN SAID HE HAD A PROPOSITION IN MIND. VAST AMOUNTS OF DOLLARS NOW LOCATED IN EUROPE ARE IN FACT FROZEN. A TRIANGULAR RELATIONSHIP MIGHT BE CONSIDERED BETWEEN THE USSR, EUROPE AND THE UNITED STATES. CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MOSCOW 03561 04 OF 05 311528 Z

IF, FOR EXAMPLE, EUROPE EXTENDS TO THE SOVIET UNION LARGE DOLLAR CREDITS, THE SOVIET UNION COULD THEN BUY NECESSARY EQUIPMENT IN THE UNITED STATES. THE UNITED STATES IN TURN WOULD GET BACK ITS DOLLARS WHILE THE SOVIET UNION WOULD ACQUIRE U. S. EQUIPMENT. THE SOVIET UNION MIGHT THEN USE THIS EQUIPMENT TO DEVELOP INDUSTRIES WHOSE PRODUCTS ARE REQUIRED IN EUROPE. SUCH SALES COULD THEN BE USED TO REPAY EUROPEAN CREDITORS. THE SOVIET UNION COULD, FOR EXAMPLE, EXPORT WOOD PULP, NONFERROUS METALS, CHEMICAL PRODUCTS, AND A WIDE- RANGE OF OTHER COMMODITIES. UNDER AN ARRANGEMENT OF THIS KIND, THE SOVIET UNION WOULD BE PLEASED, THE UNITED STATES WOULD BE HAPPY, AND THE COUNTRIES OF EUROPE WOULD ALSO BE SATISFIED. SUCH A DEVELOPMENT WOULD THEN NO LONGER BE AN ADMINISTRATIVE MATTER BUT A ECONOMIC ONE. THEN PERHAPS THERE WOULD NO LONGER BE A NEED FOR TALKS ABOUT THE REVALUATION OR DEVALUATION OF CURRENCIES.

21. MR. KEARNS SAID HE AGREED THAT COUNTRIES MUST ENGAGE IN TWO- WAY OR TRIANGULAR TRADE IF RELATIONS ARE TO EXPAND

OVER ANY LONG PERIOD OF TIME. TRADE CANNOT SIMPLY BE A ONE- WAY STREET.

22. KOSYGIN INTERJECTED TO UNDERLINE THAT HIS COMMENTS DID NOT REPRESENT A FORMAL PROPOSAL. HE MERELY WISHED TO FAMILIARIZE MR. KEARNS WITH HIS OWN PERSONAL THINKING. SINCE THE DISCUSSIONS WERE CONFIDENTIAL, HE FELT THAT ANY MATTER COULD BE DISCUSSED.

23. MR. KEARNS SAID HE AGREED WITH MR. KOSYGIN'S OBJECTIVES BUT THERE IS ONE PROBLEM WITH RESPECT TO THE TRIANGULAR PLAN ADVANCED BY CHAIRMAN KOSYGIN, THIS INVOLVED THE COST OF MONEY. THE DOLLARS AVAILABLE IN EUROPE WERE ALMOST ENTIRELY IN PRIVATE RATHER THAN GOVERNMENT HANDS. THE EXPORT- IMPORT BANK COULD IN FACT FINANCE PURCHASE OF AMERICAN EQUIPMENT OUT OF DOLLARS AVAILABLE IN EUROPE BUT AT AN INTEREST RATE 1 TO 2 PERCENT HIGHER THAN DOLLARS CURRENTLY AVAILABLE IN THE U. S. HE UNDERSTOOD THAT A HIGHER RATE OF 1 TO 2 PERCENT WOULD NOT BE POPULAR WITH THE SOVIET AUTHORITIES. (KOSYGIN INTERJECTED TO SAY " NOT AT ALL.") MR. KEARNS INDICATED THAT HE WOULD DISCUSS CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MOSCOW 03561 04 OF 05 311528 Z

WITH THE DEPARTMENT OF THE TREASURY THE IDEA OF HAVING THE EXPORT- IMPORT BANK OBTAIN FUNDS FROM EUROPE BUT UNDER CONDITIONS WHICH WOULD MODERATE THE INTEREST FACTOR HE HAD JUST DESCRIBED.

24. MR. KEARNS CONTINUED THAT PROSPECTS FOR DEVELOPING TRADE BETWEEN THE U. S. AND THE SOVIET UNION OVER THE LONG TERM WERE EXCELLENT. THE SOVIET UNION HAS TREMENDOUS NATURAL RESOURCES WHICH THE U. S. ECONOMY NEEDS. IN ADDITION, THE UNITED STATES HAS MANY GOODS WHICH WOULD BE HELPFUL TO THE DEVELOPMENT OF THE SOVIET ECONOMY. IT WAS THE INTENTION OF THE UNITED STATES TO OPEN TRADE DOORS SO THAT THE EXCHANGE OF GOOD AND COMMODITIES COULD FLOW MORE FREELY THAN IN THE PAST. THE RESPONSIBILITY OF THE EXPORT- IMPORT BANK IS TO FACILITATE EXPORTS TO FOREIGN COUNTRIES, INCLUDING THE SOVIET UNION. AS PREVIOUSLY STATED, THE EXPORT- IMPORT BANK DOES NOT NOW FINANCE IMPORTS INTO THE UNITED STATES. AS TRADE DEVELOPS, HOWEVER, THIS MATTER COULD BE LOOKED INTO. THERE IS HOPE OF RESOLVING TECHNICAL PROBLEMS WHICH NOW STAND IN THE WAY. TO ILLUSTRATE THE DESIRE OF THE EXPORT- IMPORT BANK TO EXPAND COOPERATION, MR. KEARNS PULLED A DOCUMENT FROM HIS BRIEFCASE (A PRELIMINARY COMMITMENT), SIGNED IT, AND INDICATED THAT IT CONSTITUTED A COMMITMENT FOR A PISTON MANUFACTURING PLANT.

CONFIDENTIAL

ADP000
CONFIDENTIAL

PAGE 01 MOSCOW 03561 05 OF 05 311536 Z

50
ACTION XMB-01

INFO OCT-01 SS-14 ADP-00 EUR-10 EB-03 COME-00 TRSE-00

OPIC-01 NSC-10 NSCE-00 CIAE-00 INR-10 NSAE-00 RSC-01

L-02 PRS-01 CIEP-01 SAJ-01 INRE-00 RSR-01 AGR-03

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P 311350 Z MAR 73
FM AMEMBASSY MOSCOW
TO SECSTATE WASHDC PRIORITY 7644

C O N F I D E N T I A L SECTION 5 OF 5 MOSCOW 3561

LIMDIS

25. MR. KOSYGIN THANKED MR. KEARNS FOR CALLING ON HIM. IN CLOSING, HE SAID HE WOULD LIKE TO EMPHASIZE THAT THE SOVIET UNION IS INTERESTED IN DEVELOPING ECONOMIC TIES IN PARALLEL WITH THE EXPANSION OF POLITICAL RELATIONS. DEVELOPMENTS IN ONE FIELD BOLSTER DEVELOPMENTS IN THE OTHER. BUT, WHEN THE SOVIET UNION SPEAKS OF MAJOR DEVELOPMENTS, IT IS TALKING OF LARGE- SCALE PROJECTS. IN THIS CONNECTION, \$10 MILLION OR \$100 MILLION DEALS ARE HARDLY SIGNIFICANT. THE SOVIET UNION' S PRIME CONCERN IS TO GET REALLY MAJOR BUSINESS VENTURES UNDERWAY. UNLESS WAYS AND MEANS ARE FOUND TO DEVELOP TWO- WAY TRADE, TRADE BETWEEN THE TWO COUNTRIES WILL REMAIN OF A MOMENTARY NATURE AND BE CARRIED ON SIMPLY ON A DAY- TO- DAY BASIS. THUS, THE IDEA OF THE TRIANGULAR RELATIONSHIP WAS ADVANCED AS AN ATTEMPT TO SEARCH FOR A WAY TO ADVANCE ECONOMIC RELATIONS BETWEEN THE TWO COUNTRIES ON A LARGE SCALE. THE SOVIETS KNOW AMERICA VERY WELL AND ARE AWARE THAT THE UNITED STATES IS NOT A CHARITY ORGANIZATION. NEITHER IS THE SOVIET UNION. HE WISHED TO MAKE CLEAR WHAT THE SOVIET UNION NEEDS IS CREDIT ON THE EASIEST POSSIBLE TERMS. IF IT IS NOT AVAILABLE FROM THE UNITED STATES, THEN CREDIT CAN BE OBTAINED FROM OTHERS. THIS MATTER IS NOT ALL THAT DIFFICULT. LASTLY, HE WISHED TO OBSERVE THAT NO MATTER TO WHOM THE UNITED STATES TURNS, IT WILL NOT FIND CONDITIONS ANY MORE FAVORABLE THAN IN THE SOVIET

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PAGE 02 MOSCOW 03561 05 OF 05 311536 Z

UNION, WHICH WISHES TO PLACE ECONOMIC RELATIONS WITH THE UNITED STATES ON A REAL AND SOUND BASIS. THIS IS THE DESIRE OF THE PARTY, THE GOVERNMENT AND THE SOVIET PEOPLE. THIS IS THE SOVIET UNION'S GOAL AND IT CAN BE CONVEYED TO THE UNITED STATES. STEPS THAT HAVE BEEN TAKEN IN THE RECENT PAST ARE ONLY BEGINNING STEPS. THERE IS ROOM FOR PROGRESS AS WE BECOME BETTER ACQUAINTED AND AS RELATIONSHIPS ARE BROADENED IN NUMEROUS AREAS.

26. MR. KEARNS SAID THAT PRESIDENT NIXON IS DETERMINED TO INCREASE ECONOMIC EXCHANGES IN SUCH A MANNER THAT THE RELATIONSHIPS BETWEEN THE TWO COUNTRIES CAN GROW AND THAT THE PEOPLES AND GOVERNMENTS OF THE TWO COUNTRIES CAN BECOME MORE SATISFIED WITH THEIR RESPECTIVE SITUATIONS. MR. KEARNS SAID HE LOOKED FORWARD TO EXTENSIVE DISCUSSIONS WITHIN THE NEXT FEW DAYS ABOUT WAYS TO WORK TOGETHER BETTER AND TO EXPLORE ARRANGEMENTS WHICH WOULD BE TO MUTUAL BENEFIT. DUBS

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